U. S. SENATE

Republican Policy Committee

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Clinton Feels Your [Gas] Pain, But Keeps His Gas Tax

"Over the last several weeks, I have been concerned about the rise in gasoline prices at the pump."
President Clinton, April 29, 1996

"The President . . . should . . . take action which will have an immediate and permanent effect on gas prices — join us in repealing the 4.3 cent per gallon gas tax which costs consumers $4.8 billion per year, and which was part of his $265 billion tax increase in 1993."
Majority Leader Dole, April 29, 1996

Once again, President Clinton claims he feels the pain of working Americans, and claims to be doing something about it. This time, the backdrop is gasoline prices at the pump. After proclaiming earlier this week that he has been "concerned" for several weeks about rising retail gasoline and diesel fuel prices, he ends up doing only what Congress has already required him to do — sell a small amount of oil from the government's Strategic Petroleum Reserves.

Repealing Clinton's 4.3 Cent Gasoline Tax Hike of 1993 Saves 4.3 Cents

According to the Department of Energy, the retail price for regular unleaded gasoline has increased from a low of $1.08 per gallon in mid-February to $1.26 as of April 22. Ironically, this 18 cent increase is the about the same as the total federal gasoline highway tax, which amounts to 18.4 cents per gallon.

Clinton Added 30 Percent to the Federal Gas Tax Burden . . .

During his first year in office, President Clinton added to the 14.1 cent-per-gallon federal tax on gasoline by 30 percent by squeaking through the Congress (controlled by his party) a law that imposed $265 billion in new taxes, including a 4.3-cent-per-gallon tax on motor gasoline, diesel fuel, and alternative fuels of compressed natural gas and liquefied petroleum gas. No one outside the President's party voted for that act, the 1993 Budget Reconciliation Act.

. . . But the Revenues Aren't Going to Highway Spending

The Clinton 4.3-cent-per-gallon fuel tax was never dedicated to the Highway or Mass Transit Trust Funds. Instead, it was dedicated to general spending. Thus, repeal of the tax will not reduce federal spending on repairing or building highways or bridges, or mass transit.

You Pay When You Get on a Plane, Too

The Clinton 4.3-cent-per gallon tax also applied to aviation gasoline and commercial jet fuel, but a temporary exemption was included for the airlines in the 1993 Act. The 4.3-cent tax on airlines was removed by the 104th Congress in the Balanced Budget Act of 1995, which was vetoed by the President. Thanks to the President's veto, the airlines — actually, airline passengers — have been paying the tax since October 1, 1995.

A Stealth Attack at the Pump

Clinton's gas tax went into effect on October 1, 1993, and it managed to escape a lot of public outcry because gasoline prices at the time were dropping from the summer driving season and world oil prices had been in steady decline from April 1983 ($18.42 / bbl average refiner acquisition cost) to a low of $12.15 in December — a 34-percent drop in crude prices. In fact, crude prices did not reach $18.42 again until April of 1995. Thus, consumers did not notice the increase, which merely slowed the otherwise steady decline of gasoline prices.

The Savings Will *Come Back to Consumers*

Congressman Markey (D-MA), among others, has indicated his concern that passing the gasoline tax repeal will simply "line the pockets of the big oil companies" and will not be passed on to consumers. Certainly, retailers will always try to slowly drop the price of gasoline. However, the Department of Energy is predicting normal supplies and prices this summer. Moreover, both world and domestic crude prices have fallen every day since early last week, well before the President's announcement regarding SPR sales on Monday. With gasoline prices expected to decline through this summer, market competition in a full supply marketplace will make it very difficult for retailers to "keep" the 4.3 cents if the tax is repealed.

The Minority Leader Begs to Differ

" Well, it seems to me the Republicans' only issue . . . I'm sure if you talked about the weather, they'd come up with a tax cut; if you talked about heart problems, they'd come up with a tax cut. Any problem that you can think of in this country can be fixed with a tax cut if you listen to the Republicans. Again, we've got high prices? Let's not look at resources and supply and demand. . . . Let's have a tax cut." [Minority Leader Daschle, 4/29/96]

Releasing the SPR Oil Will Do Almost Nothing to the Price at the Pump

President Clinton's plan is to sell $227 million of Strategic Petroleum Reserve crude oil (estimated to be between 12 and 15 million barrels) by September 30, 1996. Note that Congress authorized the sale in the Balanced Budget Downpayment Act, II (PL 104-134) to "offset partially additional funding provided for high priority education programs identified by the Administration" [Statement of Managers, *Cong. Rec.* H-3842, April 25, 1996].

According to the Department of Energy, 12 million barrels will be offered for bid gradually, starting "soon." The Weeks Island, Louisiana, SPR site (from which the oil is to be sold) is only able to pump oil at between 250,000 and 350,000 barrels a day. The U.S. economy alone uses almost 18 million barrels of petroleum every day (the average for 1995 was 17.7 million). Moreover, petroleum is a globally traded commodity, so U.S. production increases have to be considered in the context of world-wide production.

The world's *daily* consumption is averaging 62 million barrels. This means that the President's "solution" to relieving tight world crude oil markets and higher U.S. gasoline pump prices is to add 12 million barrels of crude to a world oil market that will have used approximately **9.6 billion** barrels of oil between April 29 and September 30, 1996. Thus, the President's action will increase world oil supplies by a grand total of 1/800.

Clinton the Campaigner vs. Responsible Governance

On April 30, 1996, officials from the Department of Energy journeyed to Capitol Hill to brief Senate staff about the causes of the increase in retail gasoline and diesel prices. Their assessment [see box below for details]: it was due to a tight oil market, a temporary market condition, and so a return to lower prices can be expected by late summer. Yet, the same day, the Justice Department launched a task force to investigate the industry for anti-trust violations.

Why are Retail Prices Up? Here's the Department of Energy's Response

On April 30, 1996, the Department of Energy told Senate staff the recent increase in retail gasoline and diesel prices are due to the following factors:

1) Tight world crude supplies following a colder-than-normal winter;

2) Lower U.S. private crude and petroleum stocks due to: a colder-than-normal winter; and market decisions by companies to hold minimal inventories of crude oil in anticipation of the United Nations agreeing to allow Iraq to begin exporting oil;

3) Higher corn prices that have reduced ethanol production;

4) Normal Spring refinery cutbacks while they reconfigure to decrease heating oil production and increase gasoline production for the summer driving season; and

5) In California, particular shortages because of CA's required introduction of a particular form of reformulated gasoline. Shortages were due to production run problems at several CA refineries.

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